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M&A BUY AND SELL SIDE STEPS

Buy Side M&A Steps

Let's walk through the main steps of a buy-side transaction.

1. Build an Acquisition Strategy.
In order to build an acquisition strategy, buyers need to ask themselves questions such as:

- What do I want this acquisition to accomplish?
- What are the potential synergies?
- What are the current industry specific market conditions?
- What are the market predictions?
- What is my company's financial position?
- What are my company's financial projections?

2. Decide on Potential Target Search Criteria and Start Your Search.
Once a buyer has determined their goals, they can make an ideal target profile. Consider the company's

- size
- products/services
- customers
- culture and employees
- financial position
- financial potential

Buyers should consider what they expect the seller to provide and maintain while determining which assets will become their responsibility. While this criteria is examined in-depth during the diligence process, it is important to begin to consider in the early stages. It can shed light on the potential fit of the target. A brief evaluation of the target company is also recommended for the same reason.
It is generally a good idea to bring in the integration team at this point. The earlier integration is involved, the more tailored the due diligence process becomes as a result.

Learn how James Harris at Google encourages collaboration between these two teams.

3. Start Acquisition Planning.

Once the buyer has performed sufficient initial research and market analysis, it is time to draft the letter of intent or LOI. An LOI is a document declaring the preliminary commitment of one party to do business with another. The letter outlines the chief terms of a prospective deal. This letter will be sent to preliminary targets as a way to initiate the negotiation stage. Once the LOI is signed by a target, it limits them to interacting exclusively with your organization during a predetermined amount of time.

4. Begin the Valuation Process.

Once the LOI is signed, the buyer can begin to request documents from the target that will be used to calculate the valuation. During this time, the buyer should focus on calculating the worth of the target as a stand-alone entity in preparation for the transaction. While most of the work is done internally, involving external consultants to assist is common and encouraged. Typically, a variety of valuation models are assembled along with a SWOT analysis. Aside from the more formal financial analysis, the buyer should also use this time to assess the cultural fit of the target, and look for any outside influences that could affect the success of the deal. These influences could include the timing of the transaction or synergies.

The valuation often directly impacts the due diligence and integration process. Learn more about how to align valuation, due diligence, and integration in this interview.

5. Negotiate and Sign the Deal.

Once the valuation models are finished, they are used to construct an initial deal. This deal is presented to the target and then negotiated until it leads to a deal signing. Once the details are agreed upon, and protective measures are incorporated for both parties, the deal is signed.

6. Begin the Due Diligence Process.

During the due diligence process, the buyer begins checking through all details related to the organization. This process wants to prove that the transaction will be financially, legally, and culturally a great fit for the buyer. It also aims to ensure there will be no surprise liabilities for the buyer once the transaction ends. The length of time the buyer has to complete this process is typically agreed upon in the LOI and ranges from 30 to 60 days.

Check out an example of an exhaustive due diligence list here.

7. Develop Purchase and Sale Agreements.

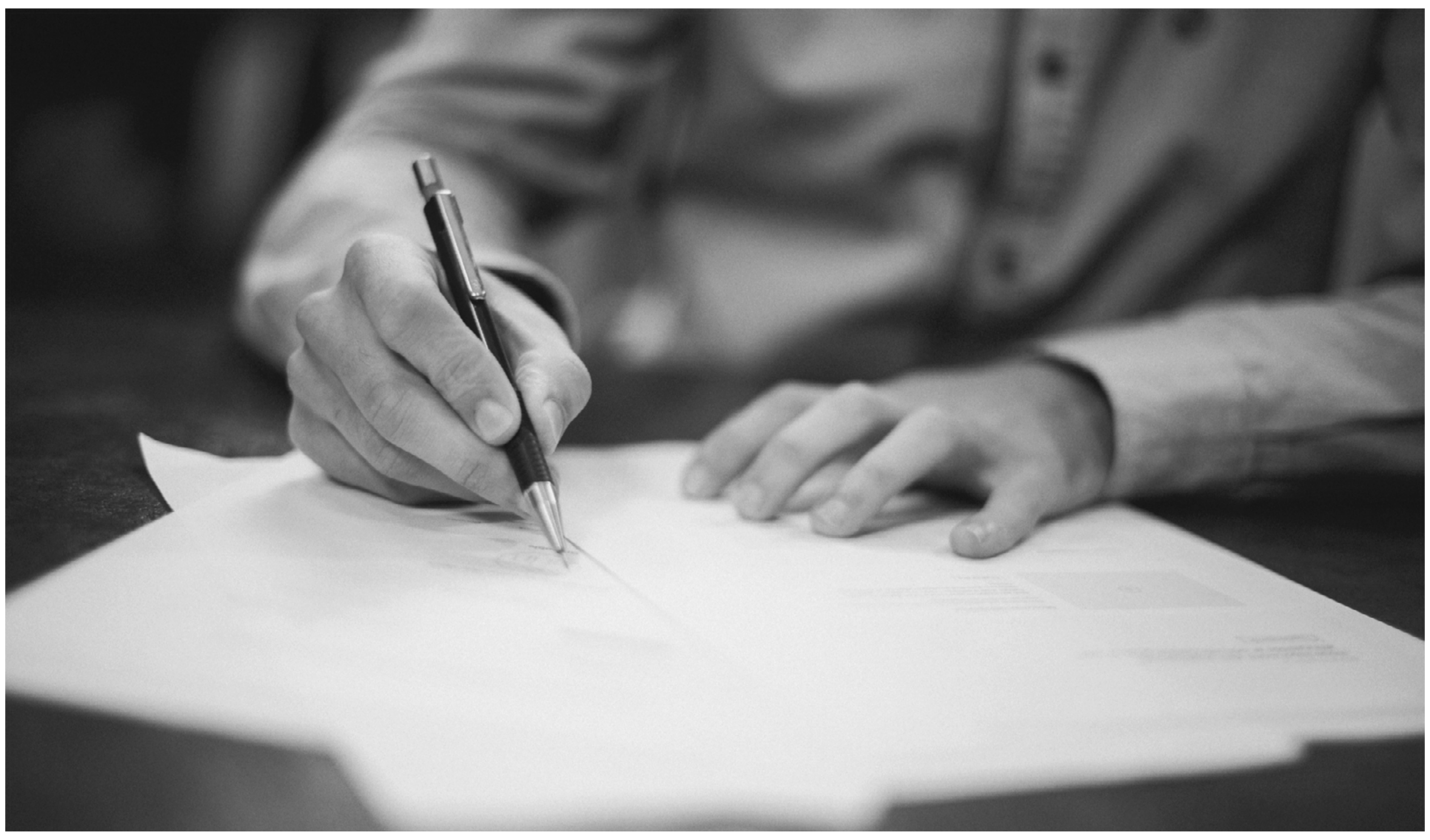
Once the due diligence process is complete and the buyer is satisfied with its evaluation of the target, the purchase and sales agreements begin to be drafted. This includes the type of purchase agreement such as a stock or asset sale. After the parties agree on the drafts and sign them, the deal closes.

8. Final Financing Strategy.

Once the deal closes, there may be adjustments that need to be made to the finance strategy drafted during the previous steps. Once these adjustments are made and the strategy is aligned with the purchase and sales agreement, it can be considered final.

9. Begin Integration Process.

Integration is the longest process involved in the deal. Ideally, the integration planning has already been completed at this stage. The integration team will simply shift into integration implementation and begin the steps needed to merge the two teams together. The integration process involves consistent monitoring and evaluation to ensure value retention, and the process can last up to a few years after close.



Sell Side M&A Steps

Let's walk through the main steps of a buy-side transaction. The sell-side of an M&A deal can be broken down into three main steps: strategy, bidding, and negotiation.

Strategy

1. Build a strategy, buyer profile, and an initial valuation.

Before even approaching a sale, it is important that the seller outlines desired outcomes. The leadership team will work together to produce an initial valuation of their company or company's assets, and then develop the profile of desired buyers. The seller should ideally look for external advice during this process to ensure their valuation and market analysis is accurate. During the valuation process, it is generally a good idea to collect and store all of the documents used to create this initial valuation. When a buyer becomes interested later in the process, the seller can save time by having them already compiled.

2. Hunt for the buyer.

Once the seller is confident this sale is the best option and that the timing makes sense, they can begin making the hunt for a buyer. Sometimes, the seller is approached by interested buyers. In other cases, the seller does research to begin the process. If the seller is with an investment bank, the bank will prepare a large document known as a confidential information memorandum (CIM), offering memorandum, or information memorandum. The main purpose of this document is to provide a detailed overview of your company's products, services, financials, and market details. Sellers often take tidbits from this document to tailor messages to desired buyers.

Bidding

3. Research and meet with prospective buyers.

As stated above, sometimes sellers are approached by buyers. If the seller is pursuing buyers, it is best to approach a few buyers simultaneously. This makes communication with them targeted and manageable. The seller will often be asked to provide general, preliminary information to buyers related to company finances and background information. The seller should be careful at this stage to be responsive to prospective buyers, while not oversharing company information.

4. Start receiving and reviewing LOIs.

Once the buyers review the seller's information, the bidding stage begins and buyers will reach out with prospective offers. It is important for the seller, no matter how excited to sell, to avoid chasing after the first offer. Sellers should take time to meet with prospective buyers to build an understanding of the buyer's culture, products, and long term market goals. After the introductory meetings conclude, the seller will start to receive LOIs in which buyers outline explicit interest and details regarding their deal offers. This initiates the negotiation stage.

Negotiation

5. Start LOI/deal negotiation.

It is important to first and foremost refer back to the initial goals outlined in the beginning stage. The seller should compare their selling goals and ideal buyer profile with the details outlined in each LOI. The LOIs should also be reviewed carefully with the seller's legal team. The legal team involves company lawyers but almost always includes external firms specialized in M&A. The legal team will work with the seller's leaders to negotiate LOI terms, and also help draft the definitive agreement.

6. Enter into an exclusivity agreement.

The exclusivity agreement will block the seller from entering into communication with other prospective buyers for a specific period of time. There can be extensions built in if necessary, but typically it lasts the length of the due diligence process.

7. Due diligence begins.

The only true way for the seller to facilitate the speed of the due diligence process is to prepare and compile as much documentation as possible in advance. Once the LOI and exclusivity agreement are signed and enacted, the buyer's due diligence process begins. The seller will facilitate all requested information from the buyer, and assist in their evaluations. This can take anywhere from 30 to 60 days, or even longer depending on the unique transaction and industry.

8. Close the deal.

Once the due diligence process is completed and the buyer is satisfied, the deal will finalize. As the deal closes, the seller's company or specific asset is owned by the buyer and they enter into the integration process.

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